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ABSTRACT

Arkansas' new finance law, Act 917, is difficult to understand because it has not been logically organized. This paper explains in detail the following provisions of the law: average daily membership (ADM) computation; local share; minimum and maximum millage; state support (including how priorities are set and the forms of state aid not covered, and how weights are calculated for special, vocational, and alternative education); and teacher salaries. Although it appears that everyone is receiving more money, each district must now pay the employees' share of teacher retirement, health insurance, and all transportation; and districts might receive only Category 1 funds up to 80 percent of the 95th percentile. (LMI)

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AN EXPLANATION OF ACT 917

by

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One of the major reasons for the difficulty in understanding Arkansas new finance law is the simple fact that it is not logically organized. Looking at it in such a fashion makes an explanation possible.

1. **ADM.** The calculation of Average Daily Membership is essentially the same as in the past. It is that of the first three quarters of the previous school year. The difference is in the calculation for and payment for growth. The new formula for this is the sum of forty percent of the increase in enrollment in the first quarter of the current school year over the three quarter average of the preceding year times the Base Local Revenue per student; plus the total increase in ADM of the first quarter of the current year times $15.00. The state is supposed to pay these funds no later than December 30.

   In other words, there are no added ADM and there is no recalculation of funds.

2. **Weights.** There are no weights and hence WADM in the new law. Only one condition provides extra funding. This is isolation. the formula for it reads:

$$\frac{(350 - \text{previous years ADM})}{850} \text{ previous year's ADM}$$

   times base local revenue per student.

Local Share

Each school district must levy a base millage rate of 25 mills. This is based on 98% of their total assessed wealth. To this is added 75% of the Miscellaneous Income collected the previous year.

Base millage, or what counts to the 25 mill requirements consists of:

1. The Maintenance and Operation millage
2. Debt Services millage not required to pay off debt
3. Current Expenditure millage.

This last is provided for in the law and is defined as a tax not to exceed five percent of a district's current expense or three mills, which ever is less,

approved by the district voters. The yield from this tax can only be spent upon:

1. Purchase of school buses
2. Furniture or equipment to support the instructional program
3. Computer software
4. Renovation or repair of existing facilities, or
5. Repaying revolving loans and for any of the four other purposes.

This current expenditure tax when combined with a capital outlay tax adopted prior to the law will not exceed 5% of current expense on three mills, whichever is less. Then if a district already has a 3-mill capital outlay tax, it cannot levy a current expenditure tax until the capital outlay tax expires.

Minimum Millage

If a district does not levy an operating millage of 25 mills in September, 1995, there a number of results:

1. The school district will not expend funds for school construction not under contract prior to February 22, 1995.
2. The local share will be made up from a number of sources:

    a. The monthly distribution of county aid
    b. The monthly distribution of municipal aid
    c. County Jail/Medical reimbursements
    d. A surcharge of 10% on the state income tax of the residents of the district.

If a district is located in more than one county, it will be considered to be located in that political subdivision in which the majority of registered voters live.

There is an escape clause from the 25 mill requirement. A district is not penalized for not charging that amount. The penalties will not apply to any district which has a local revenue per student in excess of the Base Local Revenue per student. In other words, Newark et al. will not have to tax 25 mills.

Required tax increases in 1995 range from a fraction of a mill to 8 mills.

Maximum Millage

A local district may levy an amount in excess of base millage. This is called incentive millage. It is calculated as an amount of revenue not exceeding 125 % of the Base Local Revenue per student. The permissible millage is that which will produce that amount of funds.

If, however, a district levies a millage which produces an income greater than this amount, the State Department of Education will withhold state funds equal to the revenue in excess of that produced by the incentive millage over 125%.

The drawback to this cap is the fact that it forgives districts under a court order (Little Rock) which means that it may still be much higher in expenditure than most are at present.

State Support

State support for schools is to be provided through four prioritized categories. These are:

1. State Equalization Funding per Student
2. Student Classroom Teacher Funding
3. Student Unit Funding, and
4. Student Needs Funding.

If any category, except the first, is not fully funded, districts will receive a pro rata share.

In addition to three types of funding, a line item appropriation in the public school fund will pay for:

1. General Facilities Funding
2. Growth Facilities Funding
3. Isolated Funding (noted earlier)
4. Student Growth, and
5. Debt Service Funding Supplement

The assorted terms have the following meanings:

1. State Equalization Funding per Student. This is the amount of state aid per ADM calculated by subtracting the actual local revenue per student from the Base Local Revenue per Student.

Base Local Revenue per Student. This can vary if Category 1 is fully funded--that is, State Equalization Funding-it is the local revenue per student in that school district with the highest amount of local revenue per student.

In the event that Equalization Funding is not fully funded, which seems quite possible, the following formula is used.

The total available State Equalization Funding is added to 98% of the Base Millage of 25 times the total state assessed valuation to which result is added to 75% of the total of Miscellaneous Funds collected in the previous year. The sum is then divided by the total state ADM.

This result is still supposed to be higher than the Minimum State and Local Revenue per ADM. This is defined as 80% of the total state and local revenue of the school district at the 95th percentile.

2. Student Classroom Teacher Funding. The variety of state aid is calculated at 112% of $1,633 per ADM. The money may only be spent on paying classroom teachers, counselors, and librarians. The reason for the 112% is that local districts must pay the retirement for teachers which is calculated at 12% of the previous year's payroll.

3. Student Unit Funding. This is the amount of state aid provided to a district from available Special Education Funding, Vocational Education Funding, At-Risk Funding, Isolated Funding, and Transportation Aid. Rules and regulations for these will be promulgated by the State Board of Education.

The following forms of state aid are not covered by the priorities.

1. General Facilities Funding. Each district voting 25 mills and having a facilities needs assessment justification approved by the State Department, may receive up to 35 times the previous year's ADM multiplied by the difference between 1 minus the ratio of the Local Revenue per Student and the State Equalization Funding per Student.

2. Isolated Funding. The formula for this was discussed earlier. This is some confusion over the funding of this as a separate line item or under priority four in which case it will not be funded until the plan has full funding.

3. Student Growth Funding. Discussed earlier.

4. Debt Service Funding Supplement. Districts may be provided with up to $15.00 per ADM times the difference of 1 minus the ratio of the districts Local Revenue per Student and the State Equalization Funding per Student. Beginning in 1997-98, the funding may be increased by one dollar each year.

How the money will be spent.

As a result of removing the weights, districts are now told, instead, of how they will spend their money. This is done in several ways.

First, the categories are limited in what they will be expended for.

A. Classroom Teacher Funding will be used only to pay classroom teachers
B. General Facilities Funding will be used only for the purchase of school buses, furniture, equipment, computer software, or renovation or repairs to existing facilities.
C. Growth Facilities Funding will be used only for Capital Outlay that is the purchase of a school site and the construction of new facilities.
D. Category 1, State Equalization Funding per Student may be used for Classroom Teacher Funding, Student Unit Funding, and Student Needs Funding.

This is where the messy weights come in.

For Special Education - calculate a three-year average not to exceed 12.5% of ADM on the three immediately preceding December 1 ' counts of Special Education. Then multiply the three-year average times the ADM. Multiply the result by .64 and that result by the State Base Local Revenue per Student.

For Vocational Education - Multiply the previous year's Vocational ADM times .34 times the Base Local Revenue per Student. Vocational centers will continue to receive payment from local school districts for students attending such centers.

For Alternative Education - The previous year's ADM in Alternative Education not to exceed 2% of the district's ADM multiplied by .15 times the Base Local Revenue per Student.

Alternative Education is defined as an intervention program that seeks to eliminate traditional barriers to learning and includes a component for Gifted and Talented students.

For Gifted and Talented Education - Up to 5% of the previous year's ADM multiplied by .15 times the Base Local Revenue per Student.

Comment. Unless the law is fully funded, these weight substitutes provide a condition of robbing Peter to pay Paul.

Teacher Salaries

There is no 56 and 70% rule for teacher salaries in the new law. This has been replaced by a spending requirement and a salary schedule.

1. Spending Requirement. Districts will spend at least $1,548.59 per ADM for teacher salaries.

2. Salary Schedule. Starting in 1995-96, each school district shall pay a minimum of $20,000 to a beginning teacher with a B.A. and $23,000 to a beginning teacher with a master's degree. Four hundred dollar increments are added each year to both for 14 years, raising the master's salary to $30,000.

   The specific requirements for the $400 increments do not apply to districts paying more than $20,000 to beginners and where average salary exceeds the state average.

Comment. Under conditions of continuing inflation, it seems quite shortsighted to include specific dollar amounts even down to the penny. There will have to be constantly reviewed. In so doing, the Joint Interim Committee on Education if the General Assembly has been set up as the locus for collective bargaining. I wonder when it will realize this.

A few notes should be added to this description:

1. One hundred and thirty-two school districts must raise their millage to 25 mills.

2. Although it looks like everyone is getting more money, each district must now pay the employees share of teacher retirement, health insurance, and all transportation.

3. It is doubtful that the plan can be fully funded. Therefore, districts will only receive Category 1 funds supposedly up to 80% of the 95th percentile. This is Little Rock. But their assessment is growing and their enrollment is falling. Thus keeping up to 80% will be a challenge in itself.